Victor Khanye Local Municipality
Annual Financial Statements
for the year ended June 30, 2017

Audited
By
2017 -12- 0 2
Auditor General South Africa
Mpumalanga Business Unit

General Information

Legal form of entity	Local Municipality
Accounting Officer	M.J Mahlangu
Chief Finance Officer (CFO)	T.P Mahlangu
Members of the Council	E.N Makhabane - Executive Mayor R.K Segone - Speaker E.M Masilela - MMC PITS H.M Ngoma - MMC Fin & Corp R.D Yeko - MMC HSS K.V Buda - Council WHIP N.E Johnson J.D Makobolo T.G Malomane M.M Rautenbach E.M Sekhukhune L.K Semake M.M Sepenyane A. Smith S.S Thumbathi D.J Bath L.S Nyathi M.M Thombeni
Registered office	Municipal Building c/o Samuel and Van der Walt Street Delmas 2210
Bankers	The Standard Bank of South Africa Limited
Auditors	Auditor General of South Africa
Grading of Local Authority	Grade 3 Medium Capacity MP311

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Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Index

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
CIGFARO	Chartered Institute of Government Finance, Audit & Risk Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The Accounting Officer has reviewed the municipality's cash flow forecast for the year to June 30, 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the Accounting Officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on page 5-74, which have been prepared on the going concern basis, were approved by the accounting officer on 30 November 2017 and were signed on his behalf by:

Accounting Officer
M.J Mahlangu

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2017 -12- 02
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Mpumalanga Business Unit

Statement of Financial Position as at June 30, 2017

Figures in Rand	Note(s)	2017	2016 Restated*
Assets			
Current Assets			
Inventories	8	2,920,381	2,939,610
Other financial assets	6	130,896	121,927
Receivables from exchange transactions	9	2,965,914	3,109,230
Receivables from non-exchange transactions	10	36,619,425	3,598,699
VAT receivable	11	16,547,907	10,221,286
Consumer debtors	12	79,056,203	71,884,823
Cash and cash equivalents	13	491,571	4,975
		138,732,297	91,880,550
Non-Current Assets			
Investment property	2	48,709,269	52,465,705
Property, plant and equipment	3	1,083,383,345	1,111,848,901
Intangible assets	4	2,083,011	2,076,037
Heritage assets	5	1,074,503	1,074,503
		1,135,250,128	1,167,465,146
Total Assets		1,273,982,425	1,259,345,696
Liabilities			
Current Liabilities			
Other financial liabilities	15	3,024,516	2,720,925
Payables from exchange transactions	17	99,251,498	63,062,115
Consumer deposits	18	1,601,920	1,524,737
Employee benefit obligation	7	1,020,629	636,729
Unspent conditional grants and receipts	14	3,068,678	44,502
Provisions	16	2,273,136	2,114,634
Long service awards	44	512,126	628,062
Bank overdraft	13	-	42,320,496
		110,752,503	113,052,200
Non-Current Liabilities			
Other financial liabilities	15	11,168,956	13,748,146
Employee benefit obligation	7	41,686,965	40,106,935
Provisions	16	15,588,634	13,342,815
Long service awards	44	4,928,012	5,364,901
		73,372,567	72,562,797
Total Liabilities		184,125,070	185,614,997
Net Assets		1,089,857,355	1,073,730,699
Accumulated surplus		1,089,857,355	1,073,730,699

* See Note 38

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	227,711,117	201,561,340
Rental of facilities and equipment	21	2,510,523	2,045,588
Interest received (trading)	45	32,267,297	28,576,031
Agency services	46	17,616,291	11,107,764
Licences and permits	53	2,433,786	3,636,053
Administration and management fees received		755,570	229,699
Fees earned		824,332	1,023,364
Commissions received		82,952	97,932
Discount received		39,232	34,454
Other income		524,573	982,078
Interest received -bank		1,220,531	1,016,645
Total revenue from exchange transactions		**285,986,204**	**250,310,948**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	67,796,114	65,042,214
Transfer revenue			
Government grants & subsidies	24	111,507,297	117,048,744
Public contributions and donations	25	14,746,791	14,464,943
Fines and Penalties	52	1,138,472	1,490,447
Total revenue from non-exchange transactions		**195,188,674**	**198,046,348**
Total revenue	19	**481,174,878**	**448,357,296**
Expenditure			
Employee related costs	26	(126,109,576)	(109,274,917)
Remuneration of councillors	27	(7,340,584)	(6,745,820)
Depreciation and amortisation	28	(68,590,282)	(65,571,052)
Impairment loss	29	(4,109,264)	(868,057)
Finance costs	30	(1,154,269)	(1,625,933)
Lease rentals on operating lease	47	(2,765,977)	(2,833,798)
Debt Impairment	31	(68,215,983)	(53,236,228)
Repairs and maintenance	51	(25,920,679)	(18,755,011)
Bulk purchases	32	(132,216,219)	(137,477,056)
Contracted services	33	(22,138,846)	(18,648,816)
Transfers and Subsidies	23	(1,260,699)	(4,936,867)
General Expenses	34	(34,920,368)	(43,597,610)
Total expenditure		**(494,742,746)**	**(463,571,165)**
Operating deficit		**(13,567,868)**	**(15,213,869)**
(Loss)/Gain on disposal of assets and liabilities		(2,700,571)	32,576
Fair value adjustments	35	8,969	(12,080)
Inventories losses/write-downs		(60,866)	(103,697)
		(2,752,468)	**(83,201)**
Deficit for the year		**(16,320,336)**	**(15,297,070)**

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Mpumalanga Business Unit

* See Note 38

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at July 1, 2015	**1,273,186,336**	**1,273,186,336**
Changes in net assets		
Surplus for the year	(12,976,714)	(12,976,714)
Total changes	(12,976,714)	(12,976,714)
Opening balance as previously reported	1,260,209,622	1,260,209,622
Adjustments		
Prior year adjustments	(186,074,674)	(186,074,674)
Restated* Balance at July 1, 2016 as restated*	**1,073,730,699**	**1,073,730,699**
Changes in net assets		
Surplus for the year	(16,320,336)	(16,320,336)
Total changes	(16,320,336)	(16,320,336)
Balance at June 30, 2017	**1,089,857,355**	**1,089,857,355**

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Mpumalanga Business Unit

* See Note 38

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		244,687,734	241,975,146
Grants		114,991,000	117,093,246
Interest income		1,220,531	1,016,645
Other receipts		1,138,472	1,490,447
		362,037,737	361,575,484
Payments			
Employee costs		(131,217,534)	(111,948,239)
Suppliers		(202,536,714)	(235,426,918)
Finance costs		(1,154,269)	(1,625,933)
		(334,908,517)	(349,001,090)
Net cash flows from operating activities	37	**27,129,220**	**12,574,394**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(29,422,576)	(34,544,762)
Proceeds from sale of property, plant and equipment	3	-	432,032
Purchase of investment property	2	-	(4,208,406)
Proceeds from sale of investment property	2	-	146,160
Net cash flows from investing activities		**(29,422,576)**	**(38,174,976)**
Cash flows from financing activities			
Repayment of other financial liabilities		(4,100,375)	(3,341,707)
Movement in long service awards		(552,825)	619,810
Net cash flows from financing activities		**(4,375,314)**	**(2,721,897)**
Net increase/(decrease) in cash and cash equivalents		**42,807,092**	**(55,893,317)**
Cash and cash equivalents at the beginning of the year		(42,315,521)	13,577,796
Cash and cash equivalents at the end of the year	13	**491,571**	**(42,315,521)**

* See Note 38

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	258,517,239	-	258,517,239	227,711,117	(30,806,122)	54.1
Rental of facilities and equipment	2,480,957	-	2,480,957	2,510,523	29,566	54.2
Interest received (trading)	25,455,121	-	25,455,121	32,267,297	6,812,176	54.3
Agency services	12,177,984	-	12,177,984	17,616,291	5,438,307	54.4
Licences and permits	4,303,689	-	4,303,689	2,433,786	(1,869,903)	54.5
Administration and management fees received	-	-	-	755,570	755,570	54.6
Fees earned	897,430	-	897,430	824,332	(73,098)	54.6
Commissions received	90,610	-	90,610	82,952	(7,658)	54.6
Royalties received	3,960	-	3,960	-	(3,960)	54.6
Discount received	62,040	-	62,040	39,232	(22,808)	54.6
Other income	2,094,824	-	2,094,824	524,573	(1,570,251)	54.6
Interest received - investment	1,184,113	-	1,184,113	1,220,531	36,418	54.6
Total revenue from exchange transactions	307,267,967	-	307,267,967	285,986,204	(21,281,763)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	76,122,132	-	76,122,132	67,796,114	(8,326,018)	54.7
Transfer revenue						
Government grants & subsidies	75,874,000	-	75,874,000	111,507,297	35,633,297	54.8
Public contributions and donations	-	-	-	14,746,791	14,746,791	54.9
Fines, Penalties and Forfeits	3,002,345	-	3,002,345	1,138,472	(1,863,873)	54.10
Total revenue from non-exchange transactions	154,998,477	-	154,998,477	195,188,674	40,190,197	
Total revenue	462,266,444	-	462,266,444	481,174,878	18,908,434	
Expenditure						
Personnel	(137,571,262)	-	(137,571,262)	(126,109,576)	11,461,686	54.11
Remuneration of councillors	(7,970,476)	-	(7,970,476)	(7,340,584)	629,892	54.12
Depreciation and amortisation	(19,999,999)	-	(19,999,999)	(68,590,282)	(48,590,283)	54.13
Impairment loss/ Reversal of impairments	-	-	-	(4,109,264)	(4,109,264)	54.14
Finance costs	(2,587,560)	-	(2,587,560)	(1,154,269)	1,433,291	54.15
Lease rentals on operating lease	(2,129,869)	-	(2,129,869)	(2,765,977)	(636,108)	
Bad debts written off	(27,571,297)	-	(27,571,297)	(68,215,983)	(40,644,686)	54.16
Collection costs	(298,480)	-	(298,480)	-	298,480	
Repairs and maintenance	(15,765,742)	-	(15,765,742)	(25,920,679)	(10,154,937)	54.17
Bulk purchases	(168,925,179)	-	(168,925,179)	(132,216,219)	36,708,960	54.18
Contracted Services	(16,373,090)	-	(16,373,090)	(22,138,846)	(5,765,756)	54.19
Transfers and Subsidies	(4,039,576)	-	(4,039,576)	(1,260,699)	2,778,877	54.20
General Expenses	(59,574,343)	-	(59,574,343)	(45,668,429)	13,905,914	54.21

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Total expenditure	(462,806,873)	-	(462,806,873)	(505,490,807)	(42,683,934)	
Operating deficit	(540,429)	-	(540,429)	(24,315,929)	(23,775,500)	
Loss on disposal of assets and liabilities	-	-	-	(2,700,571)	(2,700,571)	
Fair value adjustments	(7,142)	-	(7,142)	8,969	16,111	
Inventories losses/write-downs	-	-	-	(60,866)	(60,866)	
	(7,142)	-	(7,142)	(2,752,468)	(2,745,326)	
Deficit before taxation	(547,571)	-	(547,571)	(27,068,397)	(26,520,826)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(547,571)	-	(547,571)	(27,068,397)	(26,520,826)	

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2017											
Financial Performance											
Property rates	76,122,132	-	76,122,132	-		76,122,132	67,796,114		(8,326,018)	89 %	89 %
Service charges	258,517,239	-	258,517,239	-		258,517,239	227,711,117		(30,806,122)	88 %	88 %
Investment revenue	1,184,113	-	1,184,113	-		1,184,113	1,220,531		36,418	103 %	103 %
Transfers recognised - operational	75,874,000	-	75,874,000	-		75,874,000	83,281,130		7,407,130	110 %	110 %
Other own revenue	50,568,960	-	50,568,960	-		50,568,960	58,201,997		7,633,037	115 %	115 %
Total revenue (excluding capital transfers and contributions)	**462,266,444**	**-**	**462,266,444**	**-**		**462,266,444**	**438,210,889**		**(24,055,555)**	**95 %**	**95 %**
Employee costs	(137,571,262)	-	(137,571,262)	-	-	(137,571,262)	(126,109,576)	-	11,461,686	92 %	92 %
Remuneration of councillors	(7,970,476)	-	(7,970,476)	-	-	(7,970,476)	(7,340,584)	-	629,892	92 %	92 %
Debt impairment	(27,571,297)	-	(27,571,297)			(27,571,297)	(78,964,044)	-	(51,392,747)	286 %	286 %
Depreciation and asset impairment	(19,999,999)	-	(19,999,999)			(19,999,999)	(72,699,546)	-	(52,699,547)	363 %	363 %
Finance charges	(2,587,560)	-	(2,587,560)	-	-	(2,587,560)	(1,154,269)	-	1,433,291	45 %	45 %
Materials and bulk purchases	(168,925,179)	-	(168,925,179)	-	-	(168,925,179)	(132,216,219)	-	36,708,960	78 %	78 %
Transfers and grants	(4,039,576)	-	(4,039,576)	-	-	(4,039,576)	(1,260,699)	-	2,778,877	31 %	31 %
Other expenditure	(94,148,666)	-	(94,148,666)	-	-	(94,148,666)	(88,507,307)	-	5,641,359	94 %	94 %
Total expenditure	**(462,814,015)**	**-**	**(462,814,015)**	**-**	**-**	**(462,814,015)**	**(508,252,244)**	**-**	**(45,438,229)**	**110 %**	**110 %**
Surplus/(Deficit)	**(547,571)**	**-**	**(547,571)**	**-**		**(547,571)**	**(70,041,355)**		**(69,493,784)**	**12,791 %**	**12,791 %**

Victor Khanye Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	-	-	-	-		-	28,226,167		28,226,167	DIV/0 %	DIV/0 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	14,746,791		14,746,791	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**(547,571)**	**-**	**(547,571)**	**-**		**(547,571)**	**(27,068,397)**		**(26,520,826)**	**4,943 %**	**4,943 %**
Surplus/(Deficit) for the year	**(547,571)**	**-**	**(547,571)**	**-**		**(547,571)**	**(27,068,397)**		**(26,520,826)**	**4,943 %**	**4,943 %**

Capital expenditure and funds sources

Total capital expenditure	-	-	-	-		-	40,303,672		40,303,672	DIV/0 %	DIV/0 %

Victor Khanye Local Municipality
Annual Financial Statements for the year ended June 30, 2017

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	-	-	-	-		-	27,129,220		27,129,220	DIV/0 %	DIV/0 %
Net cash from (used) investing	-	-	-	-		-	(29,422,576)		(29,422,576)	DIV/0 %	DIV/0 %
Net cash from (used) financing	-	-	-	-		-	(4,375,314)		(4,375,314)	DIV/0 %	DIV/0 %
Net increase/(decrease) in cash and cash equivalents	**-**	**-**	**-**	**-**		**-**	**(6,668,670)**		**(6,668,670)**	**DIV/0 %**	**DIV/0 %**
Cash and cash equivalents at the beginning of the year	-	-	-	-		-	(42,315,521)		(42,315,521)	DIV/0 %	DIV/0 %
Cash and cash equivalents at year end	**-**	**-**	**-**	**-**		**-**	**(48,984,191)**		**48,984,191**	**DIV/0 %**	**DIV/0 %**

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Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.4 Investment property (continued)

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	**Useful life**
Property - land	indefinite
Property - buildings	50 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

1.5 Property, plant and equipment (continued)

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for Property, plant and equipment which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The Landfill site asset will be depreciated over its remaining useful life, and in the case of a change in the carrying amount of the asset, will be depreciated over its remaining useful life based on its new carrying amount. Once the asset has reached the end of its useful life, any subsequent changes in the provision will be recognised in surplus or deficit as they occur.

The useful lives of items of property, plant and equipment have been assessed as follows:

Accounting Policies

1.5 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life
Land and Buildings - Land		Indefinate
Land and Buildings - Buildings	Straight line	50 years
Plant and Machinery	Straight line	5 years
Furniture and Fittings	Straight line	7 years
Landfill Site	Straight line	33 years
Motor vehicles	Straight line	5 - 10 years
Office equipment	Straight line	3 - 5 years
Infrastructure - Electricity	Straight line	5 - 60 years
Emergency Equipment	Straight line	20 years
Infrastructure - Roads	Straight line	2 - 50 years
Infrastructure - Sanitation	Straight line	5 - 100 years
Infrastructure - Water	Straight line	5 - 100 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

1.6 Intangible assets (continued)

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software	indefinite

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

Accounting Policies

1.7 Heritage assets (continued)

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The Municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one Municipality and a financial liability or a residual interest of another Municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

1.8 Financial instruments (continued)

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from Municipality's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, a Municipality estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the Municipality use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Accounting Policies

1.8 Financial instruments (continued)

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The Municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other financial assets	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other receivables	Financial asset measured at amortised cost
Trade receivables	Financial asset measured at amortised cost

The Municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other financial Liabilities	Financial liability measured at amortised cost
Other payables	Financial liability measured at amortised cost
Trade payables	Financial liability measured at amortised cost

Accounting Policies

1.8 Financial instruments (continued)

Initial recognition

The Municipality recognises a financial asset or a financial liability in its statement of financial position when the Municipality becomes a party to the contractual provisions of the instrument.

The Municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The Municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The Municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The Municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the Muncipality analyses a concessionary loan into its component parts and accounts for each component separately. The Municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The Municipality measures financial assets at fair value through profit and loss or at amortised cost, or cost. Financial assets under cost are subject to an impairment review.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The Municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.8 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions.

1.9 Tax

Value added tax

The municipality is registered for VAT on the payment basis. Revenue, expenses and assets are recognised net of the amount of value added tax. The net amount of value added tax from or payable to the taxation authority is included as part of receivables or payables in the statement of financial position.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

1.10 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Discontinued Operations

Discontinued operation is a component of an municipality that has been disposed of and:
- represents a distinguishable activity, group of activities or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations; or
- is a controlled municipality acquired exclusively with a view to resale.

A component of an municipality is the operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the municipality.

Accounting Policies

1.13 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

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1.13 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.14 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

1.14 Impairment of non-cash-generating assets (continued)

(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.14 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.15 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.16 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Vested employee benefits are employee benefits that are not conditional on future employment.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Accounting Policies

1.16 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.16 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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2017 -12- 02

Auditor General South Africa
Mpumalanga Business Unit

1.16 Employee benefits (continued)

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Accounting Policies

1.16 Employee benefits (continued)

Other post retirement obligations

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the municipality. The municipality's obligation under these plans is valued by independent qualified actuaries annualy and corresponding liability is raised.

Payment are offset against the liability, including notional interest, resulting from the valuation by the actuaries is charged against the Statement of Financial Performance as employee benefitsupon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.17 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

1.17 Provisions and contingencies (continued)

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 49.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.17 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and 1.14.

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.18 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.19 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

1.19 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue arising from the application of the approved rariff of charges is recognised when the service is rendered by applying the relevant authorised tariff.

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.

Rendering of service

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transacti,on is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executeds.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Finance income

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Accounting Policies

1.20 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

1.20 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.21 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.22 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.23 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.24 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the accumulated surplus in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the accumulated surplus.

1.25 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the accumulated surplus in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the accumulated surplus.

1.26 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

1.26 Irregular expenditure (continued)

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Accumulated Surplus and where recovered, it is subsequently accounted for as revenue in the Accumulated Surplus.

1.27 Budget Information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis.

The approved budget covers the fiscal period from 7/1/2016 to 6/30/2017.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.28 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

Accounting Policies

1.29 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.30 Government grants and receipts

Income rereived from conditional grants and funding are recognised are recognised as revenue to the extent that the municipality has compiled with any of the criteria, conditions orr obligation embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability recognised. Government grants that are receivables as compensation for the expenses or losses already incurred or purpose of giving immediate fiancial support to the municipality with no furture related cost, are recognised in the Statement of Financial Performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the minicipality's interest it is recognised as interest earned in the Statement of Fiananacial Performance.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

2. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	72,225,346	(23,516,077)	48,709,269	73,472,683	(21,006,978)	52,465,705

Reconciliation of investment property - 2017

	Opening balance	Disposals	Depreciation	Total
Investment property	52,465,705	(1,101,177)	(2,413,950)	48,709,269

Reconciliation of investment property - 2016

	Opening balance	Additions	Disposals	Total
Investment property	48,403,459	4,208,406	(146,160)	52,465,705

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

3. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	188,752,719	(2,932,223)	185,820,496	186,505,147	(2,425,966)	184,079,181
Buildings	164,445,750	(75,208,933)	89,236,817	159,645,415	(69,700,325)	89,945,090
Transport Assets	23,935,619	(7,297,347)	16,638,272	20,777,686	(5,170,326)	15,607,360
Office Furniture and Equipment	4,786,731	(3,160,889)	1,625,842	4,665,184	(2,605,380)	2,059,804
Infrastructure	1,599,924,406	(818,832,857)	781,091,549	1,589,871,664	(774,979,030)	814,892,634
Other Assets	8,651,664	(4,851,841)	3,799,823	7,491,842	(3,803,341)	3,688,501
Work In Progress	5,170,546	-	5,170,546	1,576,331	-	1,576,331
Total	**1,995,667,435**	**(912,284,090)**	**1,083,383,345**	**1,970,533,269**	**(858,684,368)**	**1,111,848,901**

Included in Land is a Landfill site asset that was capitalised.

Included in Other Assets is Computer equipment, Fire Equipment and Other machinery and equipment as per the Fixed Asset Register.

The register required in terms of MFMA is available for inspection at Municipal offices.

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Impairment loss	Total
Land	184,079,181	2,529,572	(282,000)	-	-	(506,257)	-	185,820,496
Buildings	89,945,090	2,527,237	-	4,665,664	-	(7,901,174)	-	89,236,817
Transport Assets	15,607,360	3,267,334	(72,787)	-	-	(2,163,635)	-	16,638,272
Office Furniture and Equipment	2,059,804	209,264	(19,732)	-	-	(614,641)	(8,853)	1,625,842
Infrastructure Assets	814,892,634	10,806,235	(2,957,242)	15,424,063	-	(53,337,541)	(3,736,600)	781,091,549
Other Assets	3,688,501	1,729,552	(12,491)	-	-	(1,501,068)	(104,671)	3,799,823
Work In Progress	1,576,331	5,170,546	-	-	(1,576,331)	-	-	5,170,546
	1,111,848,901	26,239,740	(3,344,252)	20,089,727	(1,576,331)	(66,024,316)	(3,850,124)	1,083,383,345

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Impairment loss	Total
Land	184,483,509	-	-	-	(404,328)	-	184,079,181
Buildings	93,833,236	-	-	4,054,817	(7,942,963)	-	89,945,090
Transport Assets	13,026,557	4,640,603	(343,327)	-	(1,715,693)	(780)	15,607,360
Office Furniture and Equipment	1,922,039	784,433	-	-	(645,448)	(1,220)	2,059,804
Infrastructure Assets	829,744,139	-	(2,644,115)	43,110,920	(55,233,950)	(84,360)	814,892,634
Other Assets	3,855,755	991,501	-	-	(1,158,755)	-	3,688,501
Work In Progress	-	1,576,331	-	-	-	-	1,576,331
	1,126,865,235	7,992,868	(2,987,442)	47,165,737	(67,101,137)	(86,360)	1,111,848,901

Pledged as security

No assets were pledged as security in the 2016/2017 financial year.

3. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2017

	Included within Community	Total
Opening balance	1,576,331	1,576,331
Additions/capital expenditure	5,140,055	5,140,055
Transfer out	(1,576,331)	(1,576,331)
	5,140,055	**5,140,055**

Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Included within Community	Total
Additions/capital expenditure	43,110,920	1,576,331	44,687,251
Transfer out	(43,110,920)	-	(43,110,920)
	-	**1,576,331**	**1,576,331**

4. Intangible assets

	2017			2016		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	2,139,877	(56,866)	2,083,011	2,076,037	-	2,076,037

The register required in terms of MFMA is available for inspection at Municipal offices

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software, other	544,931	1,594,946	(56,866)	2,083,011

Reconciliation of intangible assets - 2016

	Opening balance	Total
Computer software, other	544,931	544,931

Pledged as security

There are no intangible assets pledged as security.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

5. Heritage assets

	2017			2016		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	1,102,112	(27,609)	1,074,503	1,102,112	(27,609)	1,074,503

Reconciliation of heritage assets 2017

	Opening balance	Total
Art Collections, antiquities and exhibits	1,074,503	1,074,503

Reconciliation of heritage assets 2016

	Opening balance	Depreciation	Total
Art Collections, antiquities and exhibits	1,102,112	(27,609)	1,074,503

6. Other financial assets

	2017	2016
At FV through Profit and Loss		
Listed Investment - Sanlam The number of shares is 2020 calculated at closing price of R64.7 (2016: 60.36) per share.	130,896	121,927
Current assets		
At FV through Profit and Loss	130,896	121,927

Notes to the Annual Financial Statements

7. Employee benefit obligations

Post Employement Medical Aid Obligation

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municpality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. The municipality has requested Arch Actuarial Consulting to prepare an actuarial valuation of the municipality's liability as at 30 June 2017 based on the post-employment health care benefits. The valuation was done to ensure appropriate provision in accordance with GRAP25. The actuarial valuation method used was the "Projected Unit Credit Method" as prescribed by GRAP25.

Key Financial Assumptions

Assumption	**2017 Value p.a.**	**2016 Value p.a.**
Discount rate	9.80%	9.67%
Health care cost inflation rate	8.08%	8.67%
Net discount rate - health care cost inflation	*1.59%*	*0.92%*
Maximum subsidy inflation rate	5.68%	6.13%
Net discount rate - maximum subsidy inflation	*3.89%*	*3.34%*

Sensitivity Results

The liability at the Valuation Date was recalculated to show the effect of:

(i) A 1% increase and decrease in the assumed rate of health care cost inflation;

(ii) A 1% increase and decrease in the discount rate;

(iii) A one-year age reduction in the assumed rates of post-retirement mortality;

(iv) A one-year decrease in the assumed average retirement age; and

(v) A 10% decrease in the assumed proportion of in-service members that continue to receive the subsidy after retirement

7. Employee benefit obligations (continued)

The table summarises the results of the sensitivity analysis.

Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service	Continuation	Total	%change
Central Assumptions		30.503	12.205	42.708	
Health care inflation	1%	33.641	12.436	46.077	8%
	-1%	26.331	11.795	38.127	-11%
Discount Rate	1%	25.042	11.212	36.254	-15%
	-1%	37.713	13.359	51.072	20%
Post-retirement mortality	-1 yr	31.207	12.585	43.793	3%
Average retirement age	-1 yr	32.978	12.205	45.183	6%
Continuation ofmembership at retirement	-10%	25.108	12.205	37.312	-13%

The table summarises the results of this analysis on the Current-service and Interest

Costs for the year ending 30 June 2016.

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2017

Assumption	Change	Current service Cost	Interest Cost	Total	%change
Central Assumptions		3,506,400	3,909,500	7,415,900	
Health care inflation	1%	3,994,700	4,279,700	8,274,400	12%
	-1%	2,904,500	3,449,200	6,353,700	-14%
Discount rate	1%	2,808,400	3,619,300	6,427,700	-13%
	-1%	4,447,800	4,243,600	8,691,400	17%
Post-retirement mortality	-1 yr	3,599,100	4,019,800	7,618,900	3%
Average retirement age	-1 yr	3,634,700	4,174,800	7,809,500	5%
Continuation ofmembership at retirement	-10%	2,861,200	3,323,500	6,184,700	-17%

7. Employee benefit obligations (continued)

The summarises the results of this analysis on the Current-service and Interest

Costs for the year ending 30 June 2017.

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2017

Assumption	Change	Current service Cost	Interest Cost	Total	%change
Central Assumptions		2,903,600	4,135,700	7,039,300	
Health care inflation	1%	3,231,000	4,465,600	7,696,600	9%
	-1%	2,426,800	3,687,100	6,113,900	-13%
Discount rate	1%	2,316,100	3,861,000	6,177,100	-12%
	-1%	3,696,000	4,449,400	8,145,400	16%
Post-retirement mortality	-1 yr	2,968,900	4,242,000	7,210,900	2%
Average retirement age	-1 yr	3,008,000	4,378,200	7,386,200	5%
Continuation ofmembership at retirement	-10%	2,438,800	3,607,100	6,045,900	-14%

Past year and future projected Liability

Past year and future projected Liability	Year ending 30/06/2017	Year ending 30/06/2016
Opening Accrued Liability	**40,743,664**	**43,648,682**
Current-service Cost	3,506,379	2,974,352
Interest Cost	3,909,519	3,963,440
Expected Contributions (benefits paid)	* (636,720)	-758772
Total Annual Expense	**6,779,178**	**6,179,020**
Actuarial Loss / (Gain)	**-4,815,248**	**-9,084,037**
Closing Accrued Liability	**42,707,594**	**40,743,664**

Figures in Rand	2017	2016

7. Employee benefit obligations (continued)

Assumption	2017 Value p.a.	2016 Value p.a.
Discount rate	9.80%	9.67%
Health care cost inflation rate	8.08%	8.67%
Net discount rate - health care cost inflation	*1.59%*	*0.92%*
Maximum subsidy inflation rate	5.68%	6.13%
Net discount rate - maximum subsidy inflation	*3.89%*	*3.34%*

	2017	2016
Short term employee benefit obligation		
Short term medical aid benefit obligation	1,020,629	636,729
Long term employee benefit obligation	-	-
Long term medical aid obligation	41,686,965	40,106,935
	42,707,594	**40,743,664**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

8. Inventories

Consumables	1,852,305	1,442,675
Water	153,674	156,038
Inventory-RDP Houses	914,402	1,340,897
	2,920,381	**2,939,610**

Land to the value of R1 340 897.04 (2016) was earnmarked to be transferred for RDP houses. R914 402 (2017) will be transfered to RDP houses in the foreseable future.
Consumables include maintanace materials and fuel.

9. Receivables from exchange transactions

Sundry receivables	2,965,914	3,109,230

10. Receivables from non-exchange transactions

Fines	3,745,007	3,333,314
Receivables - Provincial Traffic Department	32,609,033	-
Other receivables from non-exchange	265,385	265,385
	36,619,425	**3,598,699**

11. VAT receivable

VAT	16,547,907	10,221,286

12. Consumer debtors

Audited
By
2017 -12- 02
Auditor General South Africa
Mpumalanga Business Unit

Gross balances		
Rates	112,614,637	88,780,872
Electricity	22,085,873	19,783,386
Water	169,816,480	151,597,737
Sewerage	18,503,210	16,666,886
Refuse	14,197,810	11,619,695
Sundry debtors	164,707,872	138,435,991
	501,925,882	**426,884,567**
Less: Allowance for impairment		
Rates	(62,492,504)	(46,312,751)
Electricity	(10,986,150)	(14,384,455)
Water	(163,781,917)	(134,724,770)
Sewerage	(17,069,223)	(15,151,083)
Refuse	(13,362,119)	(11,255,117)
Regional services levies	(155,177,766)	(133,171,568)
	(422,869,679)	**(354,999,744)**
Net balance		
Rates	50,122,133	42,468,121
Electricity	11,099,723	5,398,931
Water	6,034,563	16,872,967
Sewerage	1,433,987	1,515,803
Refuse	835,691	364,578
Sundry debtors	9,530,106	5,264,423
	79,056,203	**71,884,823**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

12. Consumer debtors (continued)

Rates		
Current (0 -30 days)	1,517,306	2,699,446
31 - 60 days	1,441,282	2,128,917
61 - 90 days	1,459,523	1,913,723
91 - 120 days	1,462,020	1,818,025
121 - 365 days	1,499,551	3,511,949
> 365 days	42,742,451	30,396,061
	50,122,133	**42,468,121**

Electricity		
Current (0 -30 days)	1,342,866	1,403,881
31 - 60 days	82,779	1,270,135
61 - 90 days	71,007	124,060
91 - 120 days	89,148	73,837
121 - 365 days	3,175,888	175,932
> 365 days	6,338,035	2,351,086
	11,099,723	**5,398,931**

Water		
Current (0 -30 days)	1,234,444	2,018,684
31 - 60 days	1,164,001	6,237,321
61 - 90 days	983,653	501,818
91 - 120 days	1,071,097	517,034
121 - 365 days	9,501,643	1,105,774
> 365 days	(7,920,275)	6,492,336
	6,034,563	**16,872,967**

Sewerage		
Current (0 -30 days)	79,229	71,250
31 - 60 days	249,300	238,520
61 - 90 days	143,380	156,021
91 - 120 days	156,698	51,664
121 - 365 days	1,148,777	73,204
> 365 days	(343,397)	925,144
	1,433,987	**1,515,803**

Refuse		
Current (0 -30 days)	79,229	52,650
31 - 60 days	249,300	85,796
61 - 90 days	143,380	22,239
91 - 120 days	156,698	66,277
121 - 365 days	90,257	85,250
> 365 days	116,827	52,366
	835,691	**364,578**

Sundry debtors		
Current (0 -30 days)	369,129	400,563
31 - 60 days	1,263,016	67,417
61 - 90 days	1,250,351	61,829
91 - 120 days	1,224,820	60,879
121 - 365 days	8,981,239	119,264
> 365 days	(3,558,449)	4,554,471
	9,530,106	**5,264,423**

Figures in Rand	2017	2016

12. Consumer debtors (continued)

Reconciliation of allowance for impairment

	2017	2016
Balance at beginning of the year	(354,999,744)	(340,148,411)
Contributions to allowance	(67,869,935)	(14,851,333)
	(422,869,679)	**(354,999,744)**

13. Cash and cash equivalents

Cash and cash equivalents consist of:

	2017	2016
Cash on hand	4,975	4,975
Bank balances	486,596	-
Bank overdraft	-	(42,320,496)
	491,571	**(42,315,521)**
Current assets	491,571	4,975
Current liabilities	-	(42,320,496)
	491,571	**(42,315,521)**

The municipality had the following bank accounts

Account number / description	Bank statement balances June 30, 2017	Bank statement balances June 30, 2016	Bank statement balances June 30, 2015	Cash book balances June 30, 2017	Cash book balances June 30, 2016	Cash book balances June 30, 2015
Standard Bank-Primary Account	2,029,594	1,398,437	3,876,443	(4,476,012)	(48,173,273)	(1,697,204)
ABSA Bank	4,961,676	5,852,777	15,270,025	4,961,676	5,852,777	15,270,025
Total	**6,991,270**	**7,251,214**	**19,146,468**	**485,664**	**(42,320,496)**	**13,572,821**

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

	2017	2016
Municipal Infrastructure Grant	1,735,845	-
Expended Public Works Programme Grant	-	44,502
Intergrated National Electrification Programme (Municipal) Grant	1,333,215	-
	3,069,060	**44,502**

Movement during the year

	2017	2016
Balance at the beginning of the year	44,502	44,502
Additions during the year	42,042,000	-
Income recognition during the year	(39,017,442)	-
	3,069,060	**44,502**

Figures in Rand	2017	2016

15. Other financial liabilities

	2017	2016
At amortised cost		
Development Bank of Southern Africa - DBSA 61001053 The loan bears interest at a fixed rate of 6.75% per annum. The loan is repayable in bi-annual installments of R602,592 over an initial period of 8 years. The loan matures on 31 December 2020.	3,703,795	4,613,338
Nedbank Loan The loan bears interest at a fixed rate of 10.03% per annum. The loan is repayable in quarterly installments of R732,668 over an initial period of 8 years. The loan matures on 1 July 2021.	10,489,677	11,855,733
	14,193,472	**16,469,071**
Total other financial liabilities	**14,193,472**	**16,469,071**
Non-current liabilities At amortised cost	11,168,956	13,748,146
Current liabilities At amortised cost	3,024,516	2,720,925

16. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Environmental rehabilitation	13,342,815	2,245,819	15,588,634
Annual Bonus	2,114,634	158,502	2,273,136
	15,457,449	**2,404,321**	**17,861,770**

Reconciliation of provisions - 2016

	Opening Balance	Total
Environmental rehabilitation	13,342,815	13,342,815
Annual Bonus	2,114,634	2,114,634
	15,457,449	**15,457,449**

	2017	2016
Non-current liabilities	15,588,634	13,342,815
Current liabilities	2,273,136	-
	17,861,770	**13,342,815**

Environmental rehabilitation provision

The site under consideration is the Delmas disposal site. This site has an operational permit with number B33/2/220/9/P218, issued 8 February 1996 in terms of Section 20 of the Environment Conservation Act,1989.

A report with an indication of the uncertainties about the amount or timing of those outflows and the major assumptions made concerning future events was compiled by JPCE (PTY) LTD (Specialist Consulting Engineers).

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

17. Payables from exchange transactions

Trade payables	62,445,449	36,756,753
Payments received in advanced - Pre-paid electricity	8,518,733	3,260,584
Payroll related cost control accounts	697,033	786,001
Retentions	3,886,363	5,980,969
Accrued leave pay	7,421,068	6,051,973
Sundry creditors	6,908,359	380,122
Debtors with credit balances	9,374,493	9,845,713
	99,251,498	**63,062,115**

[The fair value of trade and other payables approximates their carrying amounts.

18. Consumer deposits

Water and Electricty	1,601,920	1,524,737

19. Revenue

Service charges	227,711,117	201,561,340
Rental of facilities and equipment	2,510,523	2,045,588
Interest received (trading)	32,267,297	28,576,031
Agency services	17,616,291	11,107,764
Licences and permits	2,433,786	3,636,053
Administration and management fees received	755,570	229,699
Fees earned	824,332	1,023,364
Commissions received	82,952	97,932
Discount received	39,232	34,454
Other income	524,573	982,078
Interest received - investment	1,220,531	1,016,645
Property rates	67,796,114	65,042,214
Government grants & subsidies	111,507,297	117,048,744
Public contributions and donations	14,746,791	14,464,943
Fines, Penalties and Forfeits	1,138,472	1,490,447
	481,174,878	**448,357,296**

Administration and management fees received	755,570	229,699
Agency services	17,616,291	11,107,764
Commissions received	82,952	97,932
Discount received	39,232	34,454
Fees earned	824,332	1,023,364
Interest received (trading)	32,267,297	28,576,031
Interest received - investment	1,220,531	1,016,645
Licences and permits	2,433,786	3,636,053
Other income	524,573	982,078
Rental of facilities and equipment	2,510,523	2,045,588
Service charges	227,711,117	201,561,340
	285,986,204	**250,310,948**

Figures in Rand	2017	2016

19. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	67,796,114	65,042,214
Transfer revenue		
Government grants & subsidies	111,507,297	117,048,744
Public contributions and donations	14,746,791	14,464,943
Fines, Penalties and Forfeits	1,138,472	1,490,447
	195,188,674	**198,046,348**

20. Service charges

Sale of electricity	157,072,134	136,868,466
Sale of water	42,921,480	42,966,517
Sewerage and sanitation charges	12,812,926	9,610,006
Refuse removal	14,904,577	12,116,351
	227,711,117	**201,561,340**

21. Rental of facilities and equipment

Rental income comprise of:		
Rental for buildings	1,253,340	814,765
Rental-Land and other	1,257,183	1,230,823
	2,510,523	**2,045,588**

22. Property rates

Rates received

Commercial	2,679,533	6,347,900
Government	5,580	11,970
Residential	65,111,001	58,682,344
	67,796,114	**65,042,214**

23. Grants and subsidies paid

Other subsidies		
Pauper funerals	47,200	23,000
Indigent funerals	744,100	4,805,608
Communal taps	4,026	13,643
IEC Office	465,373	94,616
	1,260,699	**4,936,867**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

24. Government grants and subsidies

Operating grants		
Equitable share	72,949,000	69,434,767
Finance Management Grant	1,625,000	-
Municipal Systems Improvement Grant	465	930,000
Expended Puplic Works Programme Grant	2,040,000	2,103,000
Energy Efficiency Management Grant	6,666,665	1,599,976
	83,281,130	**74,067,743**
Capital grants		
Municipal Infrastructure Grant	28,226,167	27,189,000
Donation Received from Municipal Infrastructure Support Agency Grant (MISA)	-	2,792,001
Intergrated National Electrification Programme (Municpal) Grant (INEP)	-	13,000,000
	28,226,167	**42,981,001**
	111,507,297	**117,048,744**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	38,523,538	50,614,001
Unconditional grants received	72,949,000	69,434,743
	111,472,538	**120,048,744**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Equitable Share

Current-year receipts	72,949,000	69,434,767
Conditions met - transferred to revenue	(72,948,992)	(69,434,767)
	-	-

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	2,121,907
Current-year receipts	30,377,000	24,189,000
Conditions met - transferred to revenue	(28,191,408)	(26,310,907)
	2,185,592	-

Conditions still to be met - remain liabilities (see note 14).

Financial Management Grant(FMG)

Current-year receipts	1,625,000	1,600,000
Conditions met - transferred to revenue	(1,625,000)	(1,600,000)
	-	-

Municipal Systems Infrastructure Grant (MSIG)

Current-year receipts	-	930,000
Conditions met - transferred to revenue	-	(930,000)

Figures in Rand	2017	2016

24. Government grants and subsidies (continued)

	-	-

Expanded Public Works Grant (EPWP)

Balance unspent at beginning of year	-	44,500
Current-year receipts	2,040,000	2,103,000
Conditions met - transferred to revenue	(2,040,000)	(2,147,500)
	-	-

Municipal Infrastructure Support Agency Grant

Current-year receipts	-	2,792,000
Conditions met - transferred to revenue	-	(2,792,000)
	-	-

Energy Efficiency Demand Management System Grant

Current-year receipts	8,000,000	19,000,000
Conditions met - transferred to revenue	(6,666,666)	(19,000,000)
	1,333,334	-

Conditions still to be met - remain liabilities (see note 14).

Donations from District Municipality

25. Public contributions and donations

Public contributions and donations	14,746,791	14,464,943

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

26. Employee related costs

	2017	2016
Basic	76,782,353	67,224,444
Medical aid	5,667,683	4,500,624
WCA & UIF	630,019	557,185
SDL	1,039,637	873,152
Other payroll levies	38,931	30,411
Leave payment	1,646,401	552,484
Pension and provident fund contributions	14,833,525	13,403,296
Standby Allowance	3,944,736	3,591,985
Defined contribution plans	1,963,930	(2,905,018)
Travel and motor car allowances	5,527,282	4,992,063
Overtime payments	7,332,117	6,712,767
Long-service awards	(552,825)	619,810
Housing benefits and allowances	1,019,167	854,263
Annual Bonus	4,867,525	4,194,953
Provision for leave expense	1,369,095	4,072,498
	126,109,576	**109,274,917**

Remuneration of Municipal Manager

	2017	2016
Annual Remuneration	1,110,316	1,155,162
Car Allowance	120,000	110,000
Performance Bonuses	-	322,778
Acting allowance	150,781	-
	1,381,097	**1,537,940**

Remuneration of Chief Finance Officer

	2017	2016
Annual Remuneration	362,067	937,424
Car Allowance	51,000	110,000
Acting allowance	406,910	265,504
	819,977	**1,312,928**

Director of Technical Services

	2017	2016
Annual Remuneration	529,677	908,362
Car Allowance	91,000	156,000
Housing	35,000	60,000
Acting allowance	297,961	210,318
	1,381,097	**1,334,680**

Director of Corporate Services

	2017	2016
Annual Remuneration	978,167	1,149,197
Car Allowance	102,000	102,000
Acting allowance	34,602	23,576
	1,114,769	**1,274,773**

Director: Community and Social Services

	2017	2016
Annual Remuneration	718,946	1,064,711
Car Allowance	121,180	144,000
Acting allowance	88,374	36,374
	928,500	**1,245,085**

Figures in Rand	2017	2016

27. Remuneration of Councillors

Salaries	4,552,460	4,180,746
Pension contribution	669,220	615,682
Travel allowance	1,343,288	1,235,825
Cell phone allowance	447,468	411,671
Medical aid	328,148	301,896
	7,340,584	**6,745,820**

Remuneration of the Mayor

Salary	494,440	454,885
Medical aid	42,016	38,655
Pension fund	73,617	67,728
Transport Allowance	151,602	139,474
Cellphone allowance and mobile data	24,790	22,807
	786,465	**723,549**

Remuneration of the Speaker

Salary	391,952	360,596
Medical aid	38,443	35,368
Pension fund	58,263	53,602
Transport Allowance	121,282	111,589
Cellphone allowance and mobile data	24,790	22,807
	634,730	**583,962**

Remuneration of the Chief Whip

Salary	353,734	325,435
Medical aid	58,848	54,140
Pension fund	51,187	47,092
Transport Allowance	113,702	104,606
Cellphone allowance and mobile data	24,790	22,807
	602,261	**554,080**

Remuneration of Other Councillors

Salary	3,312,334	3,039,816
Medical aid	188,843	173,736
Pension fund	486,153	447,261
Transport Allowance	956,702	880,166
Cellphone allowance and mobile data	373,098	343,250
	5,317,130	**4,884,229**

28. Depreciation and amortisation

Property, plant and equipment	66,207,916	63,146,110
Investment property	2,413,950	2,397,408
Heritage Assets	27,534	27,534
	68,649,400	**65,571,052**

29. Impairment of assets

Impairments

Impairment of assets	4,109,264	868,057

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
30. Finance costs		
Other financial liabilities	1,154,269	1,625,933
31. Debt impairment		
Contributions to debt impairment provision	68,215,983	53,236,228
32. Bulk purchases		
Electricity	90,773,644	90,929,249
Water	41,442,575	46,547,807
	132,216,219	**137,477,056**

Electricity Distribution Losses - Units		
Purchased	111,669,350	110,664,334
Sold	(99,590,161)	(93,890,718)
Subtotal	12,079,189	16,773,616
Less: Units accounted for as free basic services	(4,405,762)	(4,256,570)
Less Departmental usage	(1,222,270)	(2,961,794)
	6,451,157	**9,555,252**
Water-Distribution Losses		
Purchased	41,398,997	688,015
Pumped- boreholes	1,204,956	1,204,956
Subtotal	42,603,953	8,092,971
Less: Water Sold	(39,052,044)	(3,665,182)
Less: Free basic 6kl per indigent household per month	(352,212)	(376,742)
Less: Departmentmental usage	(854,212)	(90,847)
	2,345,485	**3,960,200**

Electricity distribution losses amounted to R11 914 903 (11%) (2016: R15 190 186 (15.16%))and water distribution losses amounted to (2016: R27 957 394(56.17%))

33. Contracted services		
Performance Management System	2,609,040	21,917
Security Services	7,913,044	6,448,107
Operating Leases	1,382,582	1,253,646
Professional Services	9,780,504	10,727,146
Other Contractors	453,676	198,000
	22,138,846	**18,648,816**

Audited
By
2017 -12- 02
Auditor General South Africa
Mpumalanga Business Unit

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

34. General expenses

	2017	2016
Advertising	116,649	259,899
Auditors remuneration	4,268,717	2,403,621
Bank charges	281,730	379,103
Computer expenses	2,106,910	322,658
Consulting and professional fees	201,224	1,742,538
Consumables	1,684,022	492,958
Entertainment	338,407	197,384
Contributions to capital expenditure	537,915	948,602
Community development and training	997,365	4,065,268
ICT expenses	3,430,300	3,043,218
Vehicle cost	3,196,835	5,190,033
Marketing and communication	170,394	613,288
Literature & publications	6,942	7,498
Radio Licences	-	20,269
Pest control	30,658	336,915
Project Management Unit Salary	-	1,240,756
Printing and stationery	1,181,007	672,636
Protective clothing	1,165,282	1,112,866
Subscriptions and membership fees	1,363,703	1,230,168
Telephone and fax	1,066,753	2,952,295
Training	2,917,785	1,011,155
Travel - local	1,945,221	2,613,239
Refuse Containers & Bags	943,500	277,789
Electricity	2,948,955	4,921,206
Sewerage and waste disposal	21,746	20,483
Water	305,888	520,308
Research cost	-	3,392,532
Postage of accounts	645,387	624,592
Chemicals	53,508	463,518
Rehabilitation of landfill site	146,887	(89,011)
Water research	11,283	86,965
Municipal System Improvement Grant	-	656,384
Financial Management Grant	-	212,762
Other expenses	2,835,395	1,653,715
	34,920,368	**43,597,610**

35. Fair value adjustments

	2017	2016
Other financial assets • SANLAM Investment (Designated at FV through P&L)	8,969	(12,080)

36. Auditors' remuneration

	2017	2016
Fees	4,268,717	2,403,621

Notes to the Annual Financial Statements

Figures in Rand

37. Cash generated from operations

Figures in Rand	2017	2016
Deficit	(16,320,336)	(15,297,070)
Adjustments for:		
Depreciation and amortisation	68,590,282	65,571,052
Gain (loss) on sale of assets and liabilities	2,700,571	(32,576)
Fair value adjustments	(8,969)	12,080
Finance costs	1,154,269	1,625,933
Interest income	(32,267,297)	(28,576,031)
Impairment deficit	4,109,264	868,057
Debt impairment	68,215,983	53,236,228
Movements in Long service awards	(552,825)	619,810
Movements in retirement benefit assets and liabilities	1,963,930	(2,905,018)
Movements in provisions	4,518,955	89,011
Discount received	(39,232)	(34,454)
Changes in working capital:		
Inventories	19,229	(1,589,923)
Receivables from exchange transactions	143,316	(434,196)
Consumer debtors	(75,041,315)	(54,792,102)
Other receivables from non-exchange transactions	(33,020,726)	(2,948,173)
Payables from exchange transactions	36,189,383	11,607,984
VAT	(6,326,621)	(12,371,362)
Unspent conditional grants and receipts	3,024,176	(2,121,905)
Consumer deposits	77,183	47,049
	27,129,220	**12,574,394**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

38. Prior period errors

The municipality made the following adjustments to the figures reported previously.
Some changes made to the figures was as a result of the AG findings for 2015/2016 financial year for which the adjustments were not audited.

The errors consists of the following :
A project one-line asset sanitation asset of R6 543 443.85 at cost removed from the FAR.
New found sanitation assets of R528 494.66 at cost included on the FAR.
Inclusion of electricity pre-paid metres that were not on the FAR of R25 679 148 at cost.
Removal of duplicated high mast lights from the FAR and transformers at R21 362 390.76 at cost.
Allocation of cost to distribution pillar boxes that had no cost price priviously at R22 807.55 at cost.
Removal of street lights at Eloff and Sundra that do not belong to the Municipality at R352 404.13 and were included in the FAR
Land given to Human Settlements housing beneficiaries from the FAR of land
Removal from the FAR of land sold to NGOs in 2015 at R79 000 at cost.
Reclassification of land wrongly included in PPE to Investment Properties

The correction of the error(s) results in adjustments as follows:

	2017	2016
Statement of financial position	-	(157,526,258)
Property, plant and equipment	-	4,423,355
Investment Property	-	(8,921,831)
Trade payables from exchange transactions	-	(8,413,497)
Consumer debtors	-	2,626,585
Receivables from non-exchange	-	1,340,897
Inventory	-	(19,603,925)
Bank overdraft	-	(186,074,674)
Total adjustments	-	-

	2017	2016
	-	-
Statement of Financial Performance	-	3,000,000
Government grants and subsidy	-	729,296
Public contributions and donations	-	552,484
Employee costs	-	121,646
Remuneration of councillors	-	(13,091)
Depreciation and amortisation	-	344,107
Impairment Loss	-	(314,079)
Debt Impairment	-	32,575
Gain on disposal of assets	-	4,452,938
Total adjustments	-	-

39. Unauthorised expenditure

	2017	2016
Opening balance	492,124,914	380,095,776
Current year expenditure	16,556,801	112,029,138
Amount approved/condoned by council	-	-
	508,681,715	**492,124,914**

Notes to the Annual Financial Statements

Figures in Rand

40. Fruitless and wasteful expenditure

Opening balance		
SARS- PAYE	1,427,815	124,667
SARS-Late payment of VAT	559,673	4,167
Eskom Interest	-	1,284,663
Telkom	2,034,810	9,067
Pension funds	-	3,851
Interest on DBSA loan arrear account	-	214,717
	26,307	-
	4,048,605	**1,641,132**

41. Irregular expenditure

Opening balance		
Add: Irregular Expenditure - current year	28,821,896	28,821,896
Less: Amounts condoned	10,822,686	-
	-	-
	39,644,582	**28,821,896**

The irregular expenditure was incured as the result of non-compliance with the SCM policies and procedures.

The investigation for unauthorised, irregular, fruitless and wasteful expenditure was conducted and is waiting council approval.

Notes to the Annual Financial Statements

42. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

DATE	SUPPLIER	SERVICE DESCRIPTION	SERVICE RISK MITIGATING	REASON FOR DEVIATION	AMOUNT
26/07/2016	TAZI PROJECTS & TRANSPORT	REVONATION OF RDP HOUSE ON MANDELA DAY DELPARK	SOCIAL SERVICE	SCM Sec 36 (1) (a) (i) in an emergency case	R14 172.80
29/08/2016	WORKSHOP ELECTRONICS	CALIBRATION AND SERVICE OF EQUIPMENT PRESCRIBED BY SANS 10216	Social Service	SCM Sec 36 (1) (i) Single Provider	R7 066.58
15/08/2016	EZAMAHALA DEVELOPMENT AND SERVICES	Security guard on storm damage	Electricity	SCM Sec 36 (1) (a) is an emergency	R18 360
04/08/2016	DELMAS NISSAN	Service of the nissan motor vehicle (FNF 578 MP)	Fleet	SCM Sec 36 (1) (a) Single provider	R4 215.70
08/08/2016	NANTOS WASTE	Hiriring of jet combination truck to unblock sewer		SCM Sec 36 (1) (a) is an emergency	R37 976.25
08/08/02016	Neo entle business enterprise	Hiring of vacuum and high pressure jet combination truck to unblock sewer	WATER	SCM Sec 36 (1) (a) is an emergency	R102 312
15/08/2016	FIRE RAIDERS	Service on fire pumper	FIRE AND RESCUE	SCM Sec 36 (1) (ii) Single Provider	R2 417.83
16/08/2016	MARCE FIRE FIGHTING TECHNOLOGY (pty)	Repair of emergency vehicles (FTD 379 MP)	FIRE AND RESCUE	SCM Sec 36 (1) (ii) Single Provider	R53 874.60
29/08/2016	WORKSHOP ELECTRONICS	Calibration and service of equipment at vehicle testing centre	SOCIAL SERVICE	SCM Sec 36 (1) (ii) Single Provider	R14 172.80
15/08/2016	GG MAINTANANCE & SERVICES PTY LTD	Transport and install transformer	ELECTRICITY	SCM Sec 36 (1) (a) (i) in an emergency case	R6 748.80
06/09/2016	NEO ENTLE BUSINESS ENTEPRISE	Emergency repair of 6 prim pump Ext 14	WATER	SCM Sec 36 (1) (a) is an emergency	R125 600
06/09/2016	MBEKZIN TRANPORT	Emergency repair of S8 self-priming pump	WATER	SCM Sec 36 (1) (a) (i) in an emergency case	R112 984.04

Notes to the Annual Financial Statements

Figures in Rand

42. Deviation from supply chain management regulations (continued)

28/09/2016	MASINGA ELECRTICAL	Relocation of cable fault, install and supply	ELECTRICITY	SCM Sec 36 (1) (V) any other exceptional case	R44 324.34
28/09/2016	MASINGA ELECRTICAL	Relocation of cable fault, install and supply 95mmx3core	ELECTRICITY	SCM Sec 36 (1) (v) in any other exceptional case	R136 012.60
20/10/2016	NEO ENTLE BUSINESS ENTEPRISE	Repair 6 prim pump at golf course	WATER /SANITATION	SCM Sec 36 (1) (a) is an emergency	R139 600
31/10/2016	UD TRUCKS	Servicing of UD TRUCK (HBH 002 MP)	FLEET	SCM Sec 36 (1) (i) single provider	R1 948
27/10/2016	DELMAS CRANE AND LOWBED HIRE	8 ton mobile crane	ELECTRICITY	SCM Sec 36 (1) (I) is an emergency	R4 788
31/10/2016	FZ PROJECTS	Strip and quote	FLEET	SCM Sec 36 (1) (v) in any other exceptional case	R56 714.23
06/12/2016	VANGARD PROJECT	Emergency repair of telemetry	SOCIAL SERVICE	SCM Sec 36 (1) (a) (i) in an emergency case	R57 399
06/12/2016	HT PUMP & PLANT	Repair of borehole equipment	ELECTRICITY	SCM Sec 36 (1) (a) is an emergency	R49 932
12/12/2016	HEMDU COSTRUCTION AND PROJECTS	Hiring of TLB for 30days	FLEET	SCM Sec 36 (1) (a) (i) in an emergency case	R66 150
21/12/2016	NDALAMA AMATURE WINDERS	Repair of spare pump 29kw2p at golf course	WATER/ SANITATION	SCM Sec 36 (1) (a) (i) in an emergency case	R23 398.16
21/12/2016	MOKANKGADUMO TRADING AND PROJECTS pty ltd	Repair of KSB pump at Delmas water treatment plant	WATER/ SANITATION	SCM Sec 36 (1) (a) (i) in an emergency case	R76 000
21/12/2016	JOE MOTHUPI TRADING ENTERPRISE cc	Repairing of KSB pump at water treatment plant	WATER/ SANITATION	SCM Sec 36 (1) (v) in any other exceptional case	R50 007.32
09/03/2017	PBSA (PTY)LTD	Purchase of PS paper fibre tear off – special print	FINANCE/SALARIES	SCM Sec 36 (1)(v) in any other exceptional case	R42 693.00
22/02/2017	UES	Emergency replacement of electrical cable at sewer pump station golf course	WATER/SANITATIO N	SCM Sec 36 (1)(a)(i) in an emergency case	R27 326.42
22/02/2017	UES	Emergency replacement of electrical cable at RDP sewer pump station	WATER/SANITATIO N	SCM sec 36 (1)(a)(i) in an emergency case	R34 143.68
28/02/2017	UD Trucks	Service of a UD truck at its manufacture UD trucking	FLEET	SCM Sec 36 (1)(ii) single provider	R8 173.50
03/04/2017	UD Trucks	Service of a UD truck at its manufacture UD trucking	FLEET	SCM Sec 36 (1)(ii) single provider	R64 624.90

Notes to the Annual Financial Statements

Figures in Rand

42. Deviation from supply chain management regulations (continued)

15/03/2017	Coalition trading 492	Emergency repair of main bulk supply pipeline from Delmas	WATER/SANITATION	SCM Sec 36 (1)(a)(i) in an emergency case	R28 750.00
18/05/2017	Sihle and wandy construction	Emergency repair of self-priming pump V6 at Ext 14 pump station	Water/sanitation	SCM Sec 36 (1)(a)(i) in an emergency case	R145 000
18/05/2017	Joe Mothupi's trading enterprise	Emergency repair of self-priming pump S8 at Ext 14 pump station	WATER/SANITATION	SCM Sec 36 (1)(a)(i) in an emergency case	R90 060
24/04/2017	Telephone directory TELEFINDER	Single service provider S36	Communication	Single service provider S36	R10 260
TOTAL					**R1 657 206.55**

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Notes to the Annual Financial Statements

43. New standards and interpretations

43.1 Standards and Interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2017 or later periods:

Standard/ Interpretation:

Standard/ Interpretation	Issue date	Expected Impact
GRAP 18: Segment Reporting	01 April 2017	The impact of the amendment is not material.
GRAP 20: Related parties	01 April 2017	The impact of the amendment is not material.
GRAP 109: Accounting by Principals and Agents	01 April 2017	The impact of the amendment is not material.
GRAP 21 (as amended 2015): Impairment of non-cashgenerating assets	01 April 2017	The impact of the amendment is not material.
GRAP 26 (as amended 2015): Impairment of cashgenerating assets	01 April 2017	The impact of the amendment is not material.
Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	The impact of the amendment is not material,

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

44. Long service awards

Short term portion	512,126	628,062
Long term portion	4,928,012	5,364,901
	5,440,138	**5,992,963**

45. Interest Income

Interest from debtors	32,267,297	28,576,031

46. Agency Services

Vehicle registration levies	17,616,291	11,107,764

47. Operating lease

The operating lease comprise of the following:

Vehicle leases	1,363,775	1,850,307
Photocopy machinery	1,052,101	983,491
Other rentals	350,101	-
	2,765,977	**2,833,798**

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2017 -12- 02
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Mpumalanga Business Unit

Figures in Rand	2017	2016
48. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	4,110,362	5,370,954
Total capital commitments		
Already contracted for but not provided for	4,110,362	5,370,954
Authorised operational expenditure		
Already contracted for but not provided for		
• ICT Support	2,259,840	2,252,483
• Operating leases	1,471,138	3,300,367
• Fuel and diesel	1,021,181	2,140,566
• Other Commitments	8,324,915	574,211
	13,077,074	**8,267,627**
Total operational commitments		
Already contracted for but not provided for	13,077,074	8,267,627
Total commitments		
Total commitments		
Authorised capital expenditure	4,110,362	5,370,954
Authorised operational expenditure	13,077,074	8,267,627
	17,187,436	**13,638,581**
Operating leases - Minimum lease payments		
Minimum lease payments due		
- within one year	106,104	2,322,231
- in second to fifth year inclusive	-	1,844,850
	106,104	**4,167,081**

Operating lease payments represent rentals payable by the municipality for rental of vehicles.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

49. Contingencies

The matters disclosed below are possible litigations to be charged against Victor Khanye Local Municipality which have not been finalised as yet.

	2017	2016
Contigencies comprise of the following matters:	6,500,000	6,500,000
VKLM vs L. Pretorius	171,277	171,277
VKLM vs Telkom Soc	2,000,000	2,000,000
VKLM vs Trio Supplies	-	41,280
VKLM vs Strydom Venter, Strydom Eiendoms cc	-	45,000
VKLM vs Eric Zikhali	-	8,000
VKLM vs Owner of plot 38, Rennie Avenue	-	10,000
Kadi M.T vs J.B Oliver and VKLM	271,000	-
VKLM vs J Makhabane	195,004	-
VKLM vs Abram Masango	343,893	-
VKLM vs Vusimuzi Magqaza	251,701	-
VKLM VS Grace Martha Jiyane		
	9,732,875	**8,775,557**

50. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds not available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

51. Repairs and Maintanance

Repairs and maintanance comprise of the following:

Repairs of Vehicles	3,928,191	2,121,785
Repairs Buildings and Street lights	12,501,866	5,223,609
Repairs Machinery and equipment	383,563	389,360
Repairs Other	9,107,059	11,020,257
	25,920,679	**18,755,011**

52. Fines and Penalties

Traffic and library fines	1,138,472	1,490,447

53. Licences and permits

Heading		
VEHICLE PERMITS;	1,214,912	1,361,310
LICENCE - DRIVER;	1,205,233	2,260,059
SUPPLY OF INF:VEHICLE ACCIDE	10,667	12,319
LICENCE - TRADING;	2,974	2,365
	2,433,786	**3,636,053**

54. Budget differences

Material differences between budget and actual amounts

54.1 Service Charges
Less collection of Service Charges was due to the municipality note be able to implement its revenue enhancement strategy in order to increase the revenue collection of the municipality

54.2 Rental of Facilities

This is depended on the need from external people to hire the municipality facilities like Hall and other buildings, it is always very difficult to estimate the need for such

54.3 Interest received (Trading)
There is a direct relationship between increase on the Municipal's Debtors book and interest receivable, and the budget was conservative due to appointment of Service Provider to assist the municipality on its collection.

54.4 Income from Agency Fees
The increase on Agency Fees is due to the increase in the number of Registrations on the Vehicle and Licences.

54.5 Licence and Permits
The decrease on licence and Permits is due to the reason that the department of safety and Liaison and Transport took over the function from the Municipality which then lead the Municipality not receiving the monies on behalf of the department

54.6 Other Income Other Income
The decrease on other Income is due to the reason mentioned above about the Service Charges which the Municipality was not able to collect from the Service Charges

54.7 Property rates

The budget initially excluded the Property Rates on all stand that were in Victor Khanye Municipality's name and one of the Revenue Enhancement Strategy is that this stands will be charge irrespective of the Transfer or registration in the name of the rightful owners.

54.8 Government grants & Subsidies

The variance was due to all grants received, spent in full as at 30 June 2017

54. Budget differences (continued)

54.9 Public Contribution and donations

The variance was due to the donation received from Nkangala District Municipality

54.10 Fines, Penalties

The variance was due to the reason that the municipality was not having a system of recording all traffic fines and be able to clear all fines paid, the appointment of the Service provider to assist the municipality on the Collection of Fines was done late hence there is lower collection.

54.11 Employee Related Cost
The under spending is mainly due to posts that were not filled as at 30 June 2017 but were budgeted for by the Municipality

54.12 Remuneration of Councillors
The under spending was caused by one of the elected Councillor passed away during the financial year and re-election were done to elect a new councillor which took some time.

54.13 Depreciation
The increase in actual depreciation was parallel to the additions to Assets on both movable and immovable assets.

54.14 Impairment loss/Reversal of Impairments
The municipality do not budget for impairment assets as the indications of impairment of assets is not known during the budget process.

54.15 Finance cost
The decrease was triggered by the decrease in late interest/ penalties paid to ESKOM, AGSA and others for late payments of accounts

54.16 Bad debts written off
The increase in Bad debts is due to the increase of Non-employment/ retrenchment which affects the Municipality in terms of collection and other accounts ended up been written off due to non-payments and increase of indigents register.

54.17 Repairs and Maintenance
The increase on Repairs and Maintenance is due to old infrastructure the municipality end up spending more in terms of repairs and maintenance.

54.18 Bulk Purchases
The decrease on Bulk Purchases is made of cost curtailment and fixing of Bo holes in order to reduce the spending on Rand water.

54.19 Contracted Services
The increase is due to community protest that happened to the municipality which more security guards were deployed to the municipality to safeguard the municipality assets.

54.20 Transfer and Subsidies
The Number of indigents, free water and electricity were much higher than anticipated.

54.21 General Expenditure
This may be viewed as the results of successful cost curtailment and better internal controls to avoid unnecessary spending.